KEY ECONOMIC INDICATORS

UPDATE

HOUSE FISCAL AGENCY

Economic Data Pertaining to the U.S. and Michigan Economies for Members of the Michigan Legislature

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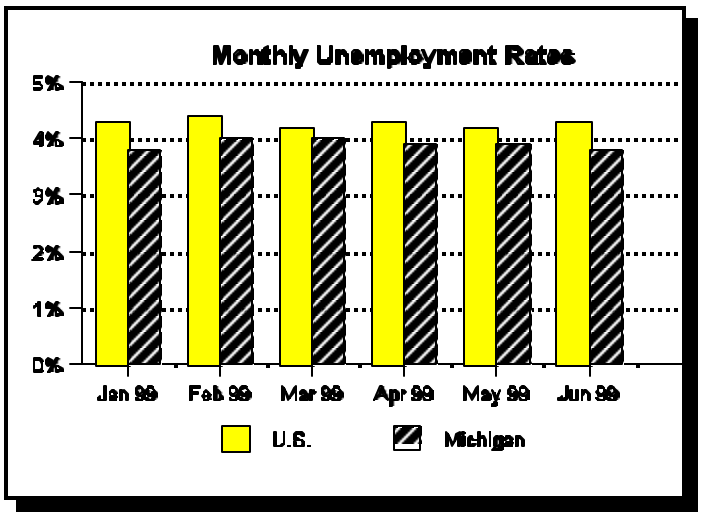
Employment

Trends in the Labor Market:[1] Michigan's seasonally adjusted (SA) unemployment rate dropped from 3.9% in May to 3.8% in June. One year ago the unemployment rate also stood at 3.8%. The decrease in June's unemployment rate was brought about by both an increase in the number of employed workers and a drop in the number of unemployed workers. Overall, the labor force grew by 8,000 workers between May and June, bringing the total to just under 5.08 million workers.[2]



- Since March 1995, the unemployment rate in Michigan has remained below the U.S. level. That trend continues as the unemployment rate for the country as a whole rose slightly in June to 4.3%, up from 4.2% in May.

- Total employment in Michigan grew to 4.89 million (SA) in June, an increase of 11,000 workers. Over the past year, total employment has grown by 46,000 workers.

- During the first half of 1999, total unadjusted wage and salary employment in Michigan has grown by about 125,000 workers to just over 4.6 million. In June, Michigan's wage and salary employment rose by modest 5,000 workers following a robust increase of 53,000 workers in May. The majority of this growth can be attributed to seasonal employment effects in the construction sector (which gained 20,000 workers in May and 8,000 in June) and retail trade (which grew by 13,000 workers in May and 7,000 in June). Employment in the manufacturing sector (about 965,000 workers) has crept upward

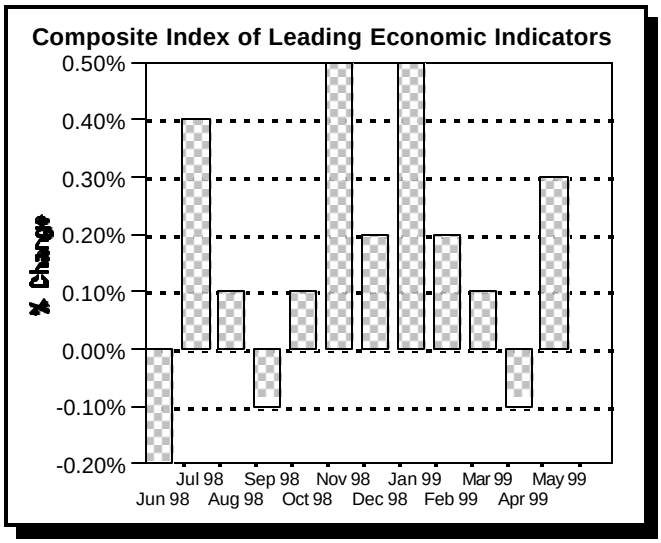
[1] U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

[2] Labor force is defined as the number of employed workers plus the number of unemployed workers.

slightly during the first half of 1999. Government employment in Michigan fell by 23,000 in June, to 652,000 workers. Almost all of this decline can be attributed to seasonal employment decreases in local education.

The National Economy

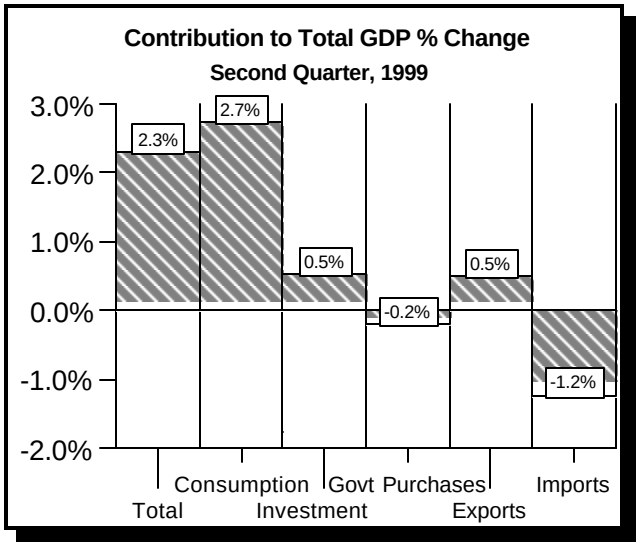
Composite Index of Leading Economic Indicators:[3] In predicting the future path of the economy, economists traditionally look at the *composite index of leading economic indicators*. The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.



The composite index of leading economic indicators rose by 0.3% in May, following a 0.1% decline in April. The May increase brought the overall level to 107.4. All but one of the ten component indicators that make up the index increased, with the lone exception being the index of stock prices. For the first six months of 1999, eight of the ten components have shown overall increases while one factor has remained relatively constant. This implies that the economy should continue to grow for the next several months.

Components of Gross Domestic Product:[4] Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy, and has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods and services.

Real GDP (advance) grew at an annual rate (AR) of 2.3% during the second quarter of 1999 after posting a 4.3% real growth rate during the first quarter. Consumer spending and investment grew by 4.0% and 3.2% respectively, although these increases were moderated by a decrease in government spending.



- **Consumption expenditures** continued to grow strongly, increasing at a rate of 4.0% (SAAR) in the second quarter. The durable goods sector led the way with a 5.6% growth rate, although both the nondurable goods and services consumption sectors grew as well.

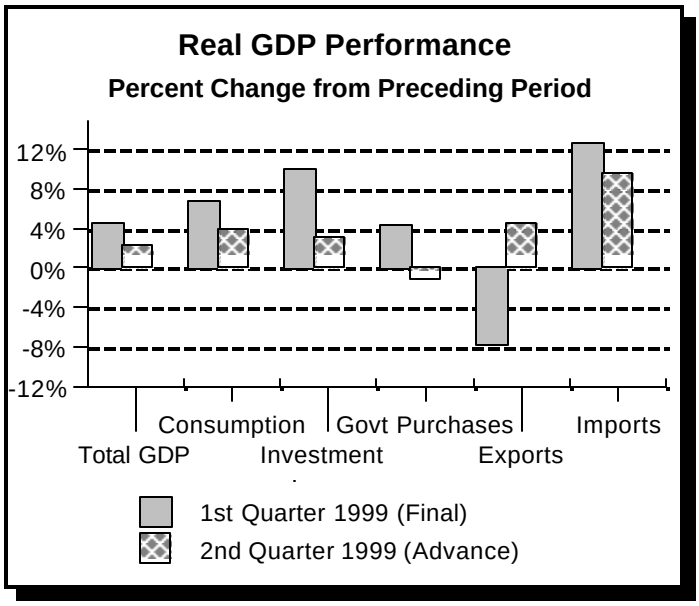
- **Gross private investment expenditures** in the second quarter of 1999 rose at a 3.2% (SAAR) rate, down sharply from the 8.5% rate in the first quarter. Residential investment rose by 5.1% after posting double-digit growth rates for the previous five quarters.

- **Total government expenditures** fell by 1.2% (SAAR) in the second quarter of 1999, led by a

[3] Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators,* The Conference Board. The *composite index of leading indicators* Is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables.

[4] Data on macroeconomic variables are expressed in chained 1992 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

3.2% decline in Federal spending that was evenly divided between the defense and nondefense sectors. Overall, government expenditures at all levels accounted for just under 17.0% of GDP during the second quarter of 1999..

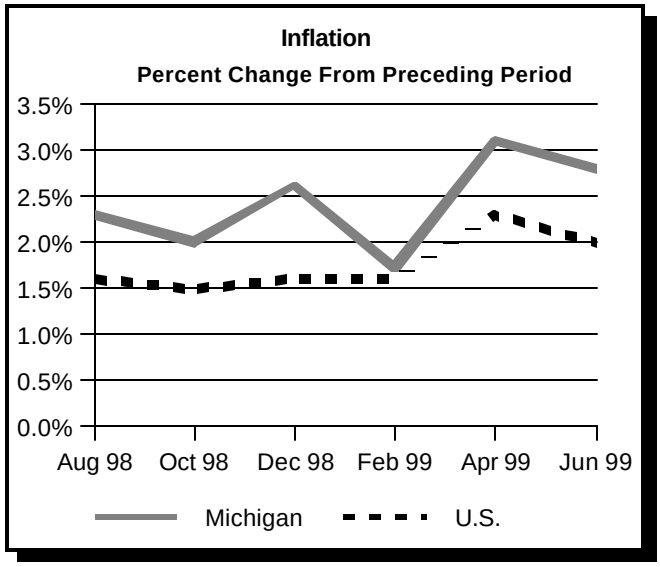


! **Net exports** continued to worsen during the second quarter of 1999 as exports rose by 4.5% while imports increased by 9.7%. The net result was a second quarter trade deficit of $19.4 billion. When combined with the first quarter trade deficit of $53.6 billion, the overall trade deficit in 1999 to date is $73.0 billion.

Inflation: Inflation estimates the decline in the purchasing power of a dollar over time and is measured as the rate of change of the **consumer price index** (CPI). Michigan inflation is measured as the rate of change of the **Detroit-Ann Arbor CPI** (D-CPI). Both the CPI and the D-CPI are calculated by the Bureau of Labor Statistics.

The inflation rate for the U.S. was essentially zero over the past two months as the CPI remained at a level of 166.2. For Michigan, D-CPI dropped from 164.1 to 163.8, which suggests that prices actually fell by a meager amount. Measured on an annual basis, the Michigan inflation rate was 2.8% between June 1998 and June 1999. For the U.S. over the same time period, the CPI rate was 2.0%. It now appears even less likely that there will be a significant rise in long-term inflation.

! The **capacity utilization rate**[5] remains well below its 30-year average, and has stayed almost constant throughout 1999. Capacity utilization in June 1999 was lower than one year before, which suggests that inflation should continue to be modest.



! The **producer price index (PPI)**, an increase in which also could signal higher future inflation, has risen by only 1.5% (AR) since June 1998 and has increased at an annual rate of less than 2.0% during 1999.

! **Labor productivity** growth, an increase of which tends to offset inflation, increased at a 3.5% annual rate during the first quarter of 1999 — sharply ahead of the 2.2% growth rate for all of 1998.

! **Employment cost indices** continue to increase faster than the rate of inflation. For the first quarter of 1999, total compensation costs have risen at an annual rate of 3.0% while wages and salaries have grown by 3.3%. Although increases in employers' costs can

[5] The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment cost indices measure the change over time in labor costs. All three are calculated by the Bureau of Labor Statistics.

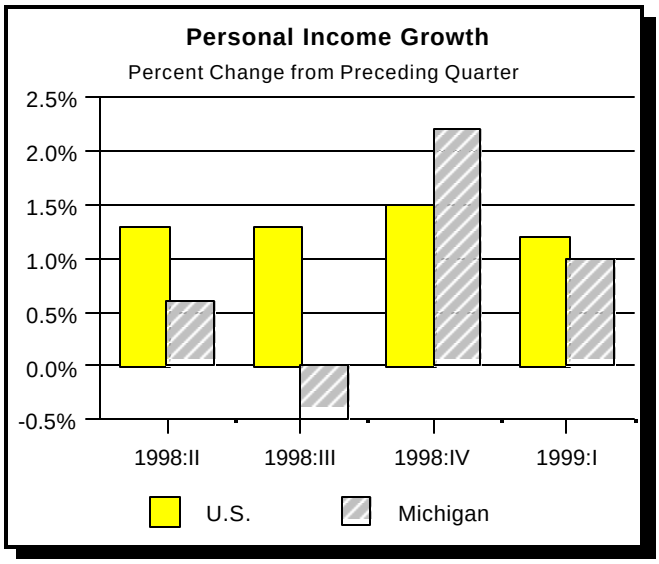
trigger inflation, the increases in labor productivity will likely minimize any inflationary effects.

The Michigan Page

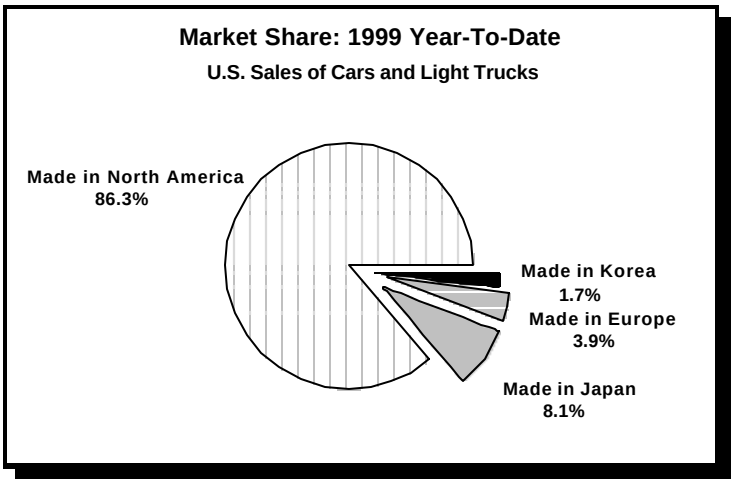
Personal Income:[6] Growth in state tax revenue is largely determined by growth in state personal income. Revised estimates indicate Michigan's personal income grew at a slightly faster rate than the U.S. average in the fourth quarter of 1998.

- The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) grew to $261.7 billion (SAAR) in the first quarter of 1999. This represents an increase of 1.0% from the fourth quarter of 1998 and a 3.4% increase over the past year. In comparison, U.S. personal income increased at a 1.2% rate during the first quarter and by 5.5% since the first quarter of 1998.

- **Real disposable income**[7] is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. Real disposable income (advance) for the U.S. increased at a rate of 2.4% (SAAR) in the second quarter of 1999 after growing at a 3.5% clip during the first quarter.



Auto Industry:[8] **U.S. sales of cars and light trucks** through June of 1999 totaled just over 8.5 million units, which represents a 7.0% rise over the first half of 1998. The number of these vehicles made in North America during the first six months of 1999 jumped by 5.1% relative to last year, and maintained a relatively constant market share when compared to foreign-produced vehicles. North American-made cars and light trucks posted sales increases of 2.6% and 7.5%, respectively. Korean automakers have seen sales in the U.S. jump by 61.2% compared to the first half of 1998. However, in spite of this increase, their total share represents only 1.7% of the overall U.S. market.



From a production standpoint, year-to-date **U.S. car production** has increased by about 4.5% to 2.9 million vehicles. In addition, **U.S. truck production** has jumped by 16.0% to just under 3.9 million vehicles, bringing total U.S. car and truck production for the first six months of 1999 to slightly more than 6.8 million units. Relative to the first half of 1998, total U.S. car and truck production has risen by almost 10.8% in 1999.

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[6] Personal Income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

[7] Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

[8] Automotive figures are published in *Automotive News*. The end of the Big Three has necessitated a change in the automotive summary figures. Four general categories consisting of "Made in North America," "Made in Japan," "Made in Europe," and "Made in Korea" will now be used in place of the previous aggregation categories.